

Asa Hutchinson
Governor

Maria Markham, Ph.D.
Director

Dr. Jim Carr
AHECB Chair

ARKANSAS HIGHER EDUCATION COORDINATING BOARD

SPECIAL MEETING

OCTOBER 24, 2019



Arkansas Division of Higher Education

423 Main Street, Suite 400 | Little Rock, AR 72201 | (501) 371-2000

ARKANSAS HIGHER EDUCATION COORDINATING BOARD SPECIAL MEETING

Thursday, October 24, 2019

University of Arkansas – Fort Smith

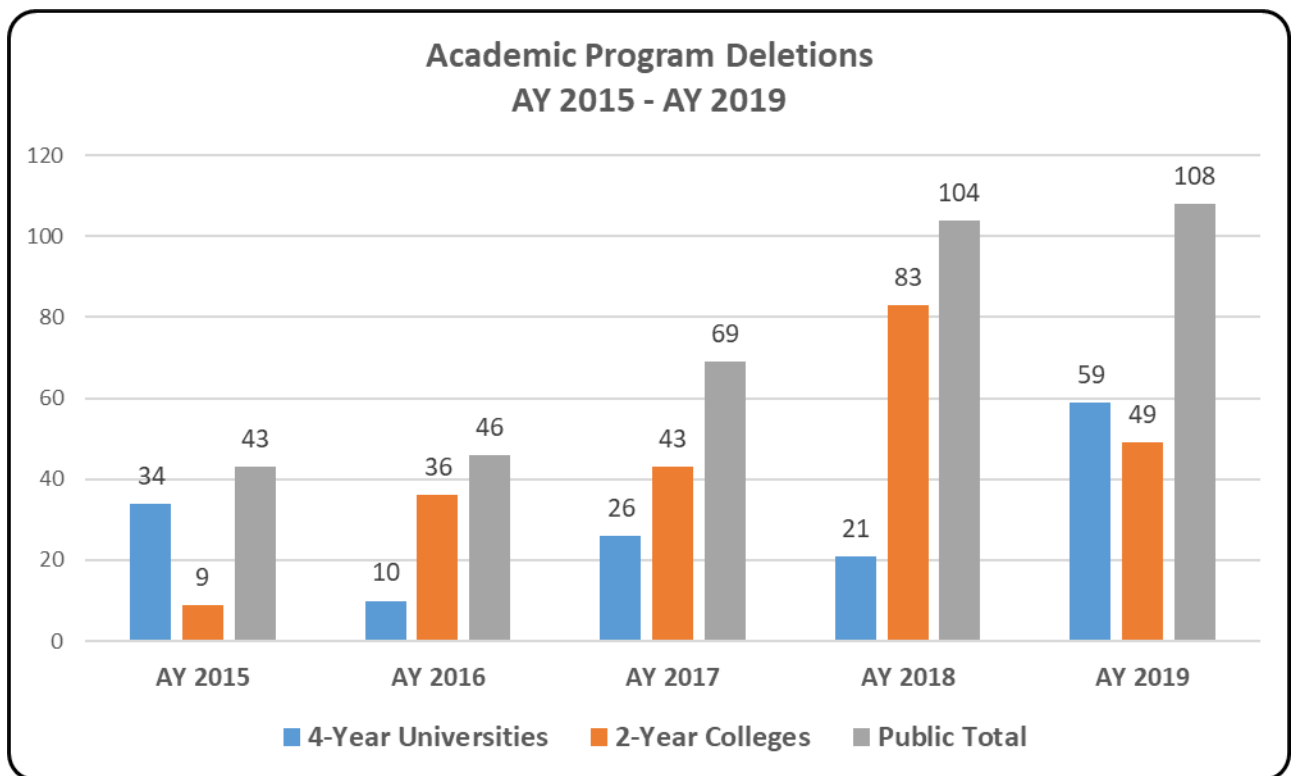
AGENDA

1. Report on Academic Program Deletions (Ms. Sonia Hazelwood)
2. Report on 2018 Fall College-Going Rate (Ms. Hazelwood)
3. Annual Status Report for Sexual Assault Prevention on Campus (Ms. Ann Clemmer)
4. Unplanned Pregnancy Prevention Annual Report (Ms. Clemmer)
5. Review of Audit Report by Governing Board (Dr. Maria Markham)

REPORT ON ACADEMIC PROGRAM DELETIONS Academic Year 2018-19

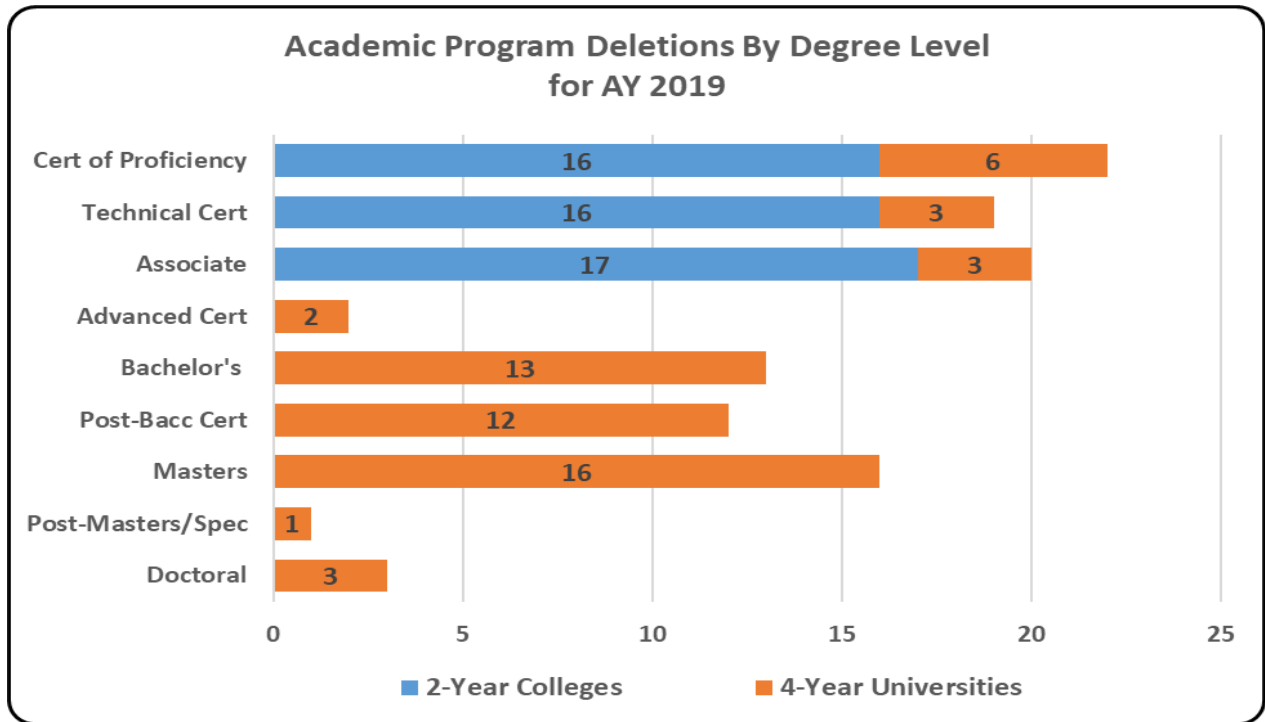
This report provides a five-year summary and detailed information about academic program deletions at all Public Arkansas Colleges and Universities for the academic years 2015 – 2019.

In AY 2019, colleges and universities deleted 108 programs as compared to 104 in AY 2018, 69 deletions in AY 2017, 46 deletions in AY 2016, and 43 deletions in AY 2015. Of the 108 programs deleted in AY 2019, 2-Year Colleges deleted 49, while the 4-Year Universities deleted 59 programs.

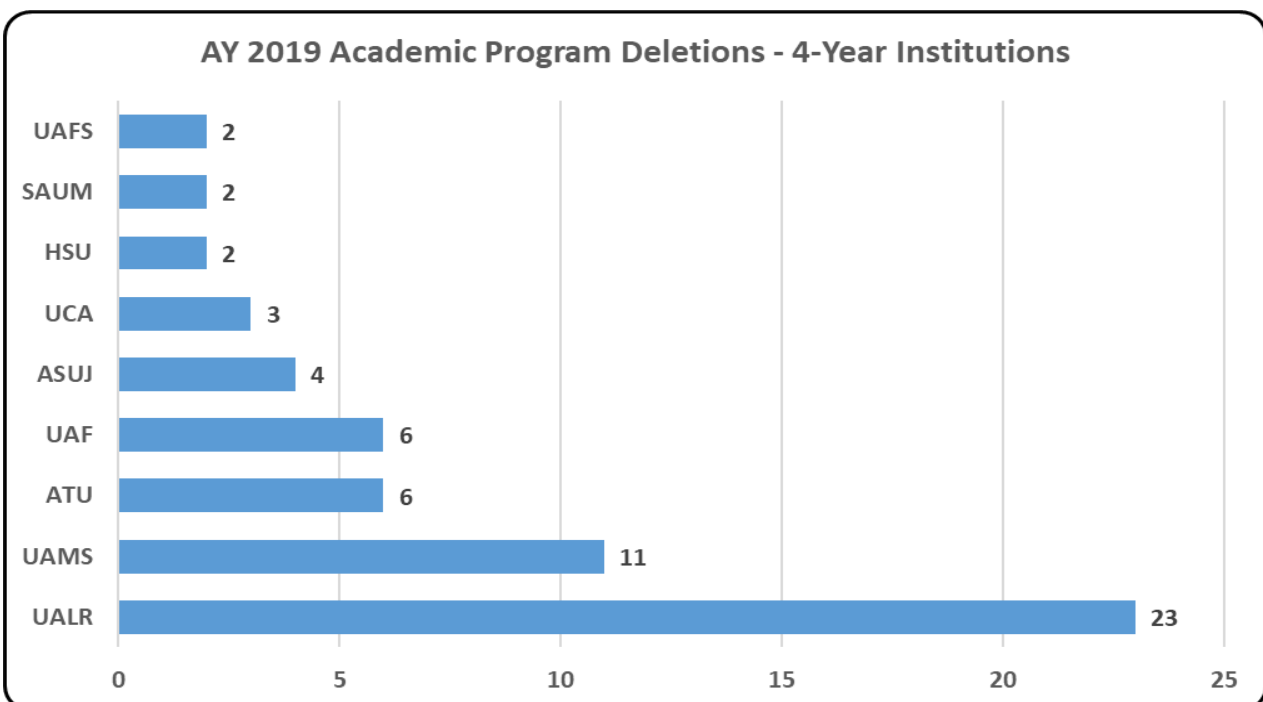


In AY 2018, 88% of all program deletions were for Certificates of Proficiency, Technical Certificates and Associate Degrees. Although still the majority of deletions, for AY 2019, CPs, TCs and Associate Degrees comprised 57% of all deletions, as the number of deletions at the Bachelor's, Post-Bacc Certificate and Masters levels increased considerably when compared to AY 2018.

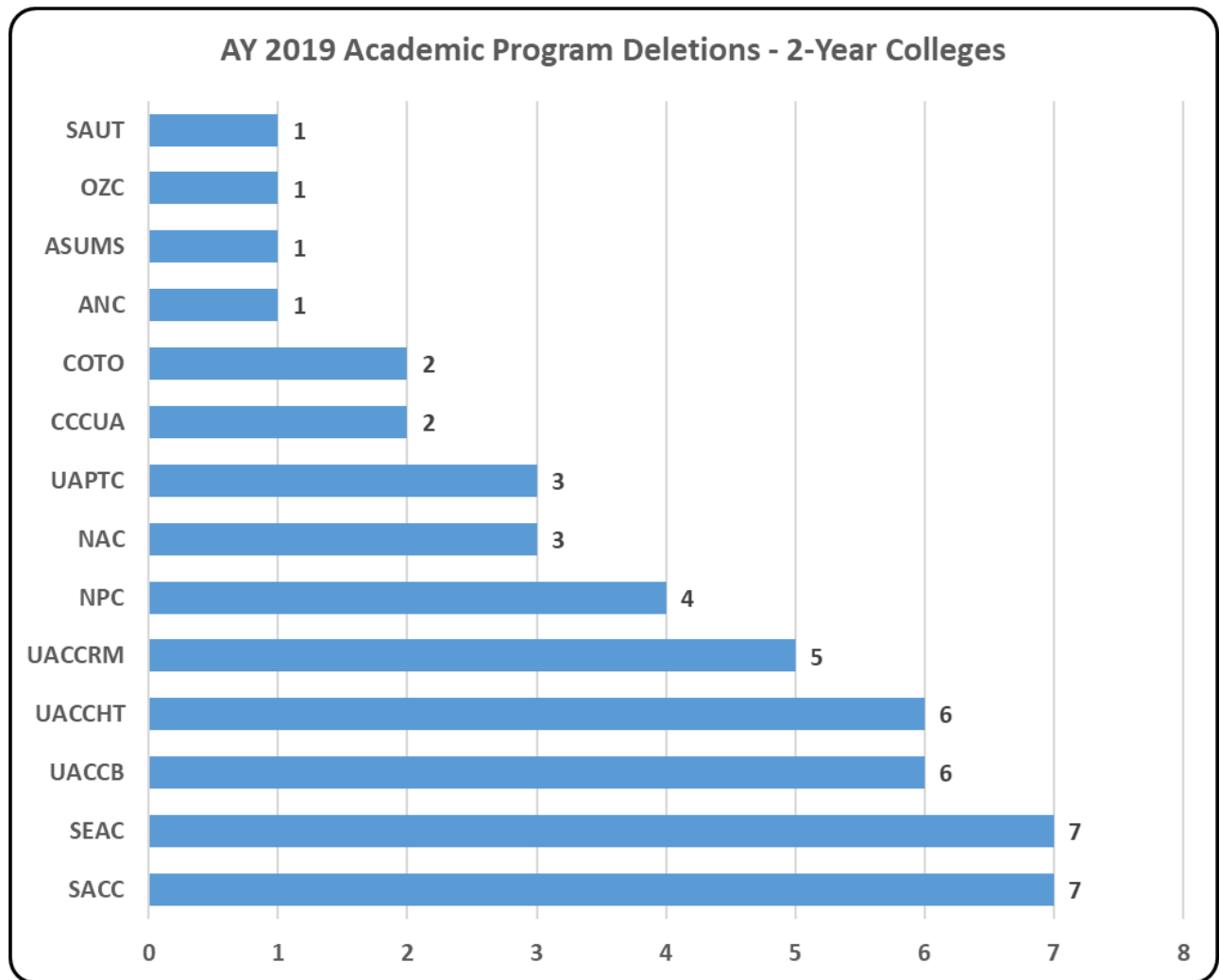
Out of the 108 Academic Program deletions in AY 2019, 28% of them were from Health Professions and Business, Management and Marketing programs. Another 12% were from the Education field of study.



The following charts breakdown program deletions for AY 2019 by institution type. Nine of our eleven 4-Year Universities submitted program deletions in AY 2019.



For our 2-Year Colleges, 14 of 22 deleted between one and seven Academic Programs during AY 2019. Both Southeast Arkansas College and South Arkansas Community College deleted seven programs this past year.

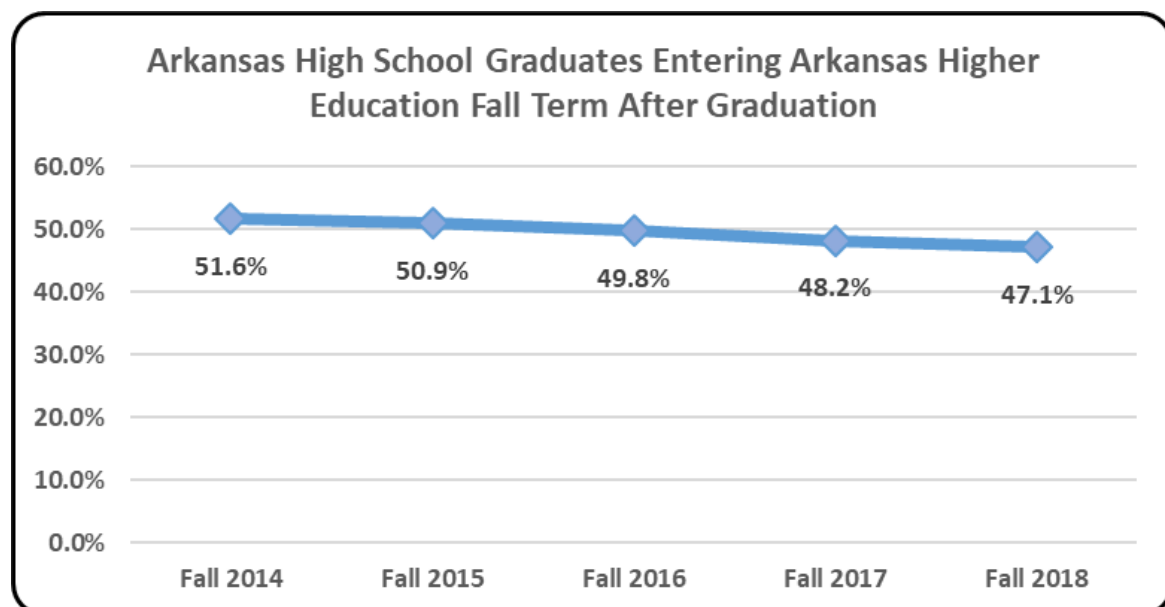


ANNUAL REPORT OF ARKANSAS PUBLIC HIGH SCHOOL GRADUATES ENROLLING IN ARKANSAS PUBLIC OR PRIVATE HIGHER EDUCATION INSTITUTIONS

The college-going rate measures the proportion of students enrolling in postsecondary education in the fall semester after finishing high school. The percentage, therefore, reflects the accessibility of higher education as well as students' assessment of the value of attending college when compared to working, entering the military or following other pursuits.

This report is a collaboration between the Division of Elementary and Secondary Education (DESE) and the Division of Higher Education (ADHE) of the Arkansas Department of Education. ADHE received 2018 public high school graduate data from DESE and combined it with Fall 2018 data submitted to ADHE from all Arkansas public and private institutions. The College-Going Rate calculations provided include only students graduating from an Arkansas Public High School or Public Charter High School.

Of the 31,745 public high school students graduating from an Arkansas public high school in 2018, 14,965 enrolled at an Arkansas public or private/independent institution in Fall 2018, the fall term immediately following their high school graduation. This represents a College-Going Rate of 47.1%, which is a 1.1% decrease from the previous year of 48.2%.



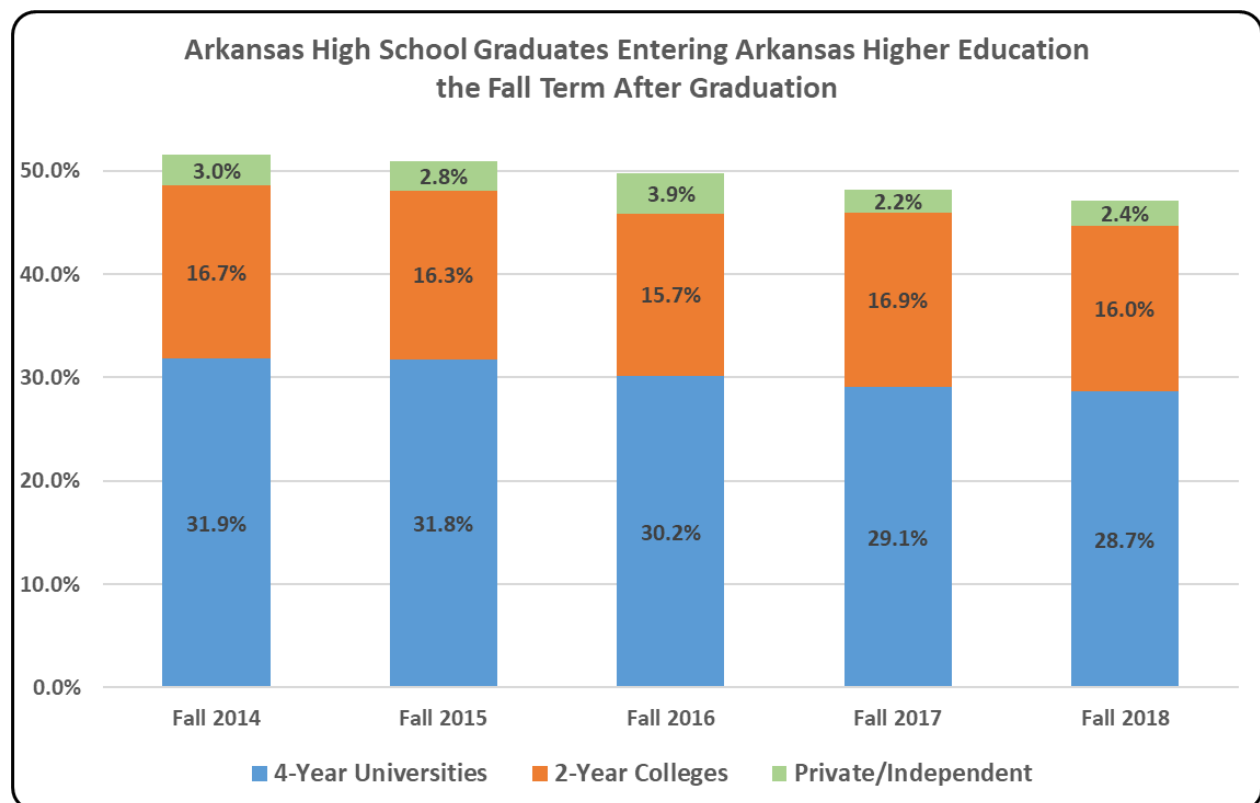
Arkansas experienced a 4.5% decline (from 51.6% to 47.1%) in the College-Going Rate of public high school graduates over the past five years.

The table below provides the actual number of Arkansas public high school graduates along with the total number of students entering Arkansas public and private higher education. The CGR column represents the college-going rate for that year.

Term	Public HS Graduates	Those Entering College	CGR
Fall 2014	30,800	15,889	51.6%
Fall 2015	30,370	15,470	50.9%
Fall 2016	30,152	15,001	49.8%
Fall 2017	31,315	15,094	48.2%
Fall 2018	31,745	14,965	47.1%

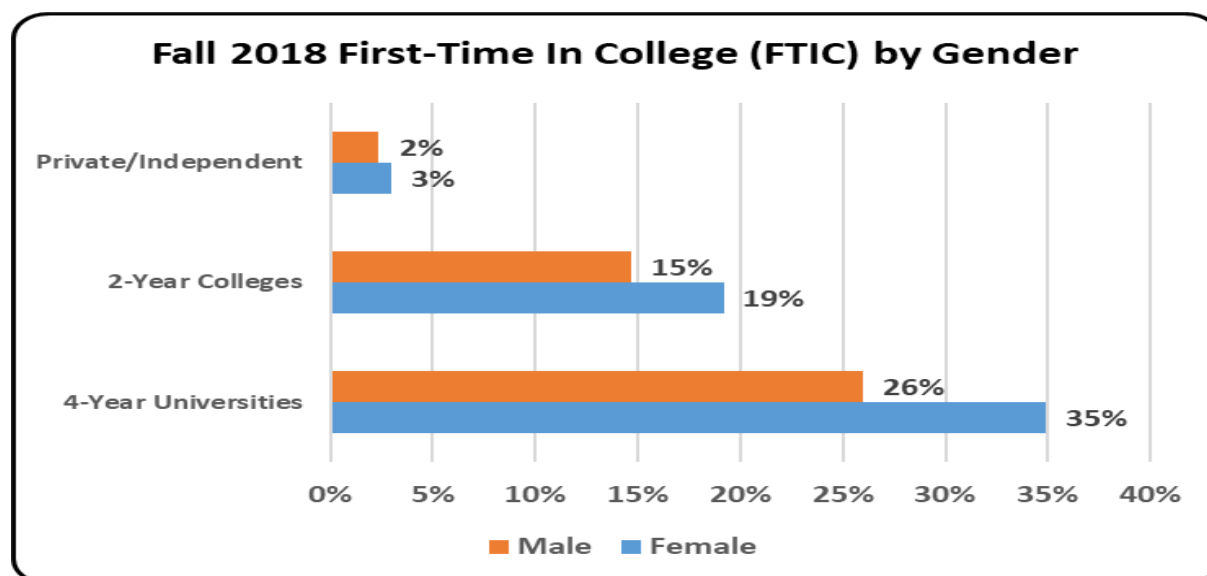
Our college-going rate has been on a steady, but slight decline for the past four years, and it is important to note that the current economy does not affect our traditional aged students who attend college right after high school like it does our non-traditional aged students. The enrollment declines experienced by many of our colleges has been in the non-traditional, adult student population.

Over five years, the share of students who did enroll in college at 4-Year Universities decreased from 31.9% in Fall 2014 to 28.7% in Fall 2018. The share of enrolled students at 2-Year Colleges has held steady at around 16%. The share of students attending our Private/Independent Institutions ranges from 2.2% to 3.9%.

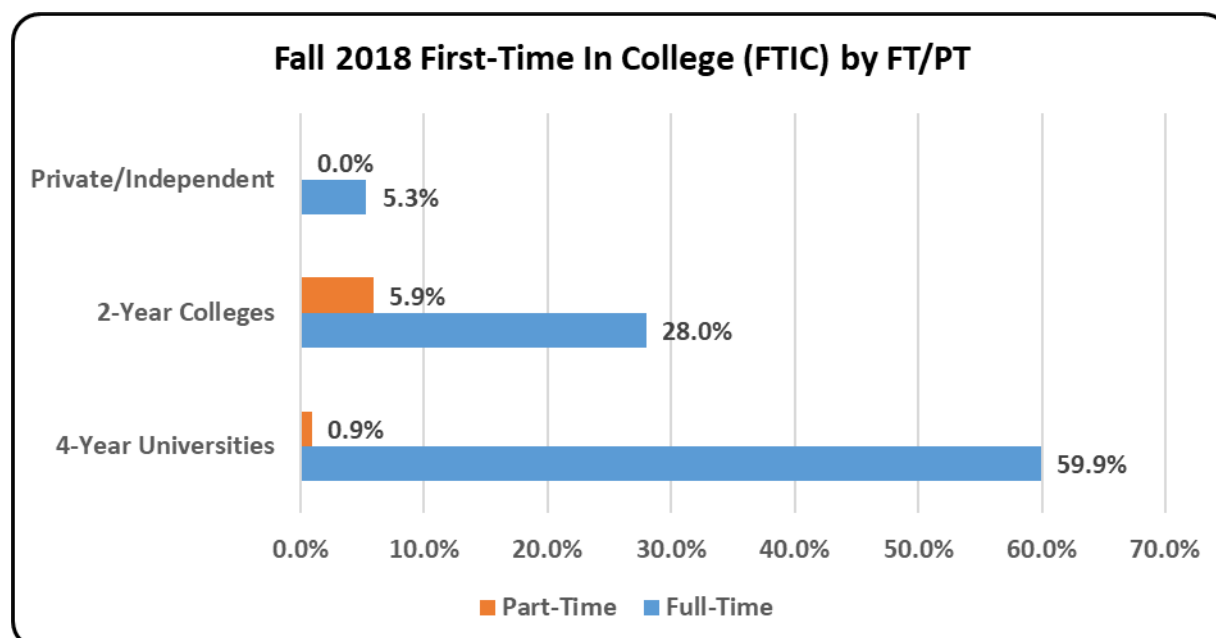


The following charts provide demographic information for the Spring 2018 High School Graduate cohort who entered Arkansas Public and Private/Independent institutions in Arkansas in the fall 2018 semester.

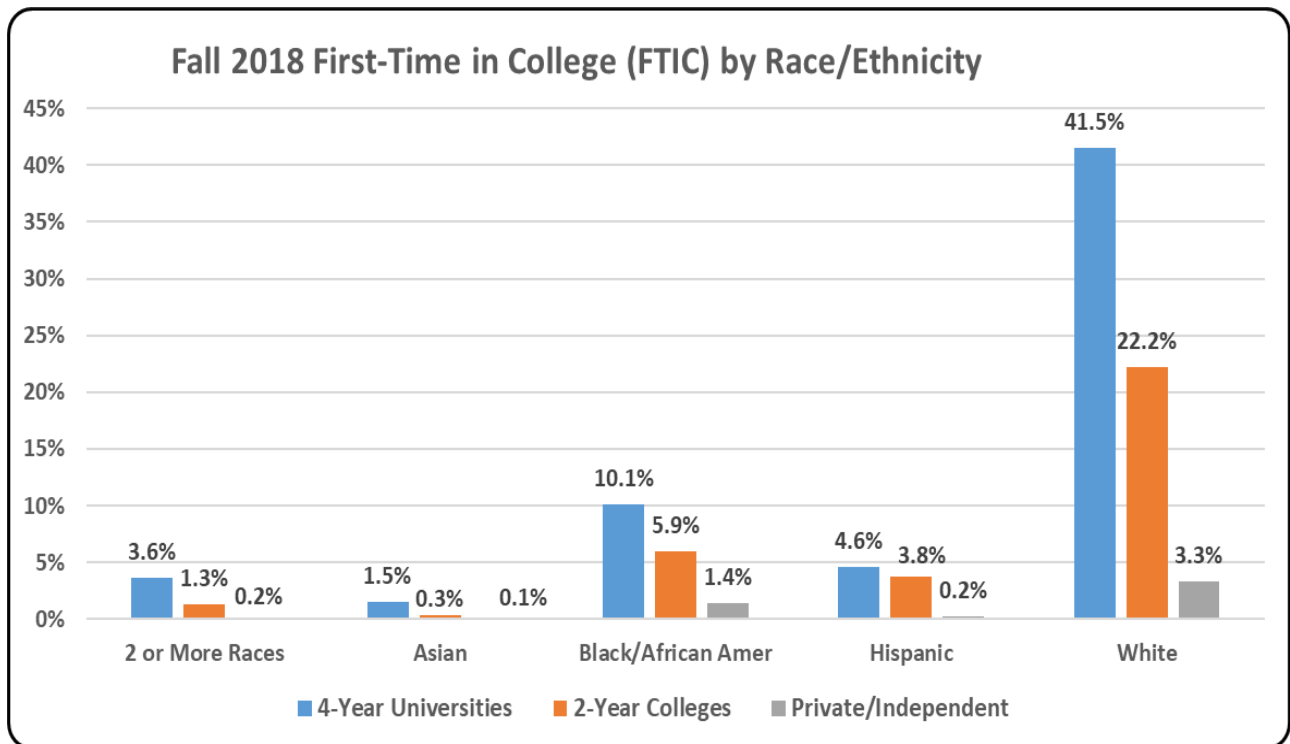
Gender: As shown below, of the Spring 2018 High School Graduate cohort, females go to college at higher rates than males. These percentages are consistent with prior year percentages.



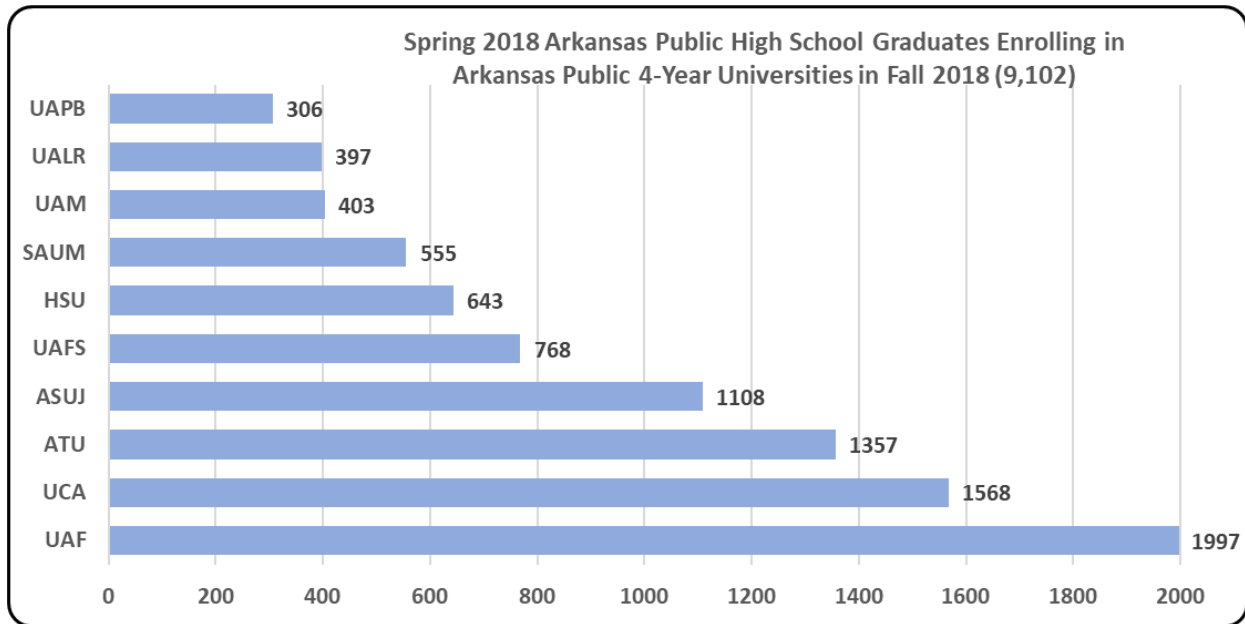
Attendance Status: Only 6.8% of students entering college immediately after high school enrolled part-time. This is typical for students enrolling in higher education the semester after graduating high school.



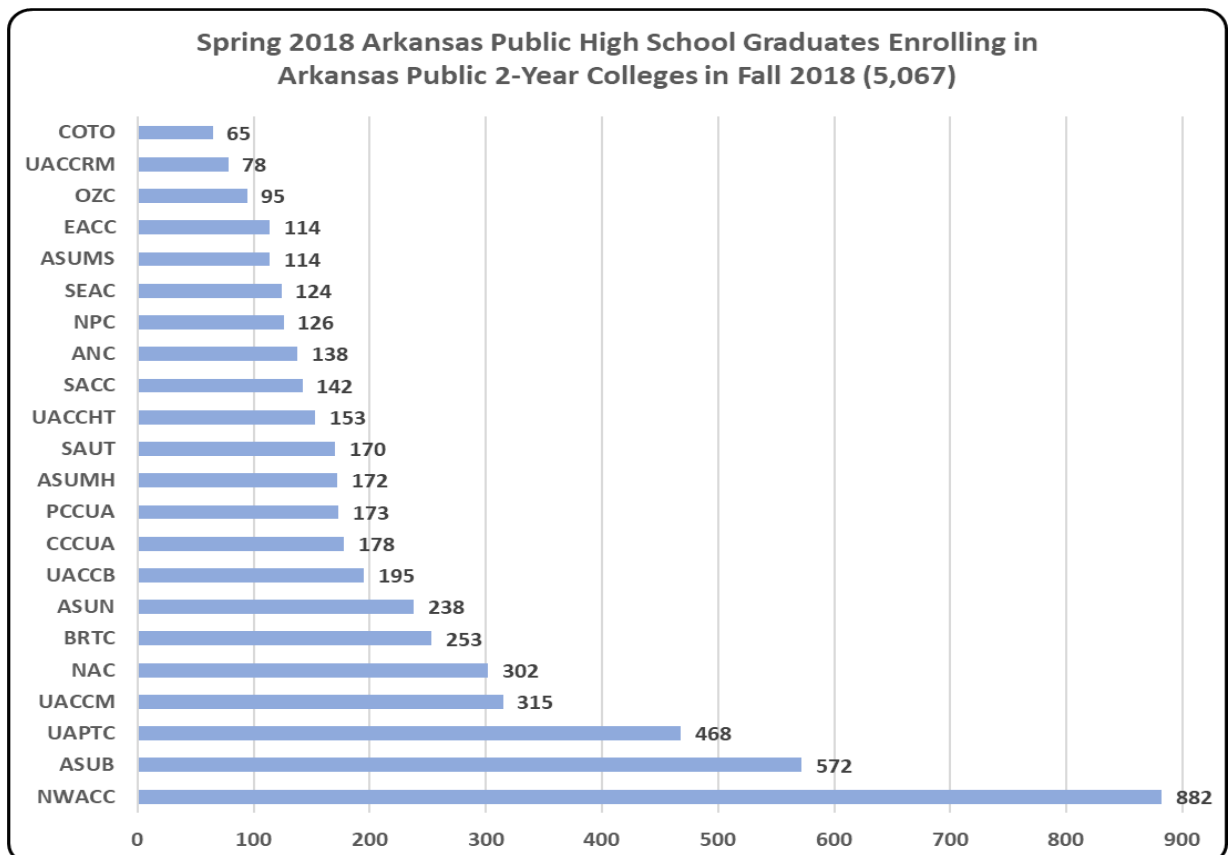
Race/Ethnicity: The race/ethnicity percentages below represent the proportion of the students who entered an Arkansas Higher Education college or university.



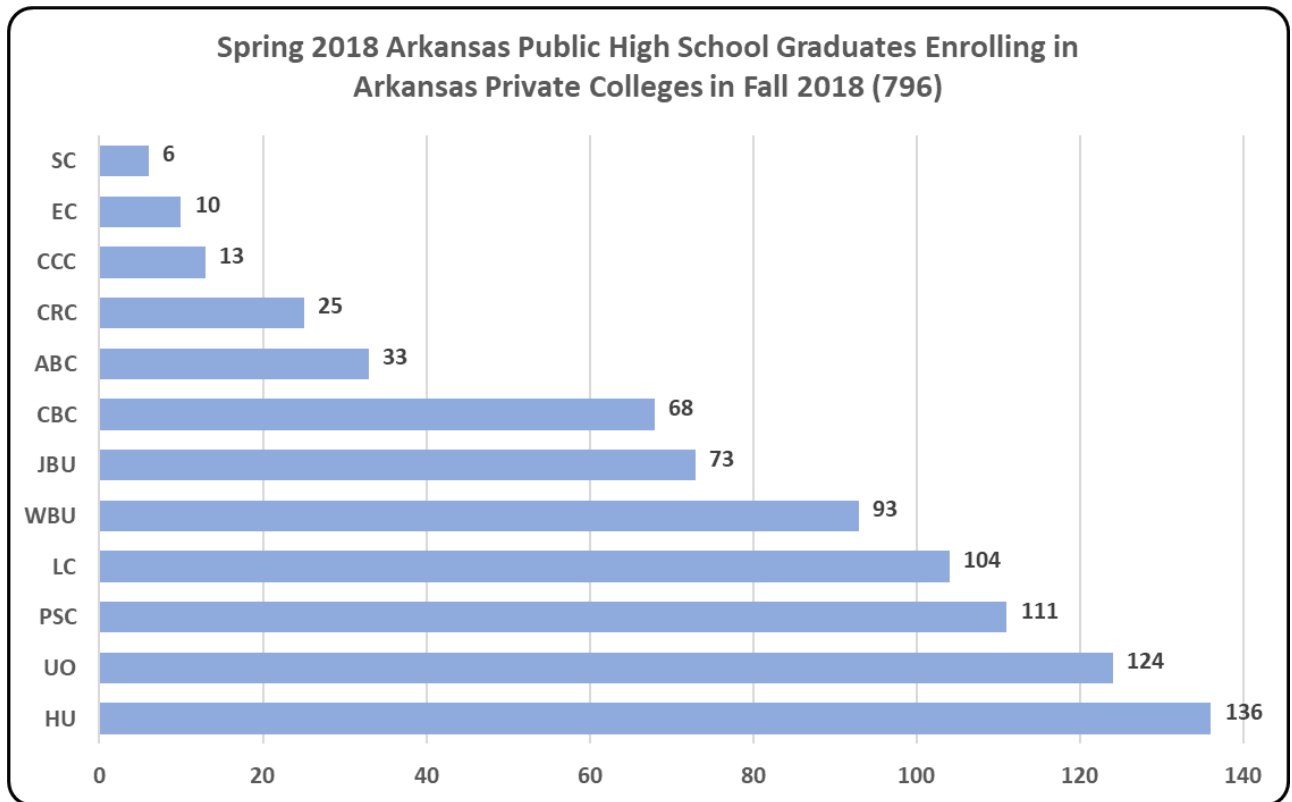
The table below shows the number of Spring 2018 public high school graduates entering into their 4-Year university of choice for the Fall 2018 term. The UAF enrolled almost 2,000 students, followed by UCA, ATU and ASUJ.



The top three 2-Year Colleges were NWACC, ASUB, and UAPTC.



The following data represents the first time in college students entering our private and independent institutions in Fall 2018. The top three Private/Independent Institutions were HU, UO and PSC.



State government transformation will allow for additional analysis and a more detailed college-going rate report next year. Data are being collected from the National Student Clearinghouse, which will provide insight into the colleges and universities our public high school graduates are attending out of state. It is anticipated that the Spring 2019 public high school graduates college going rate report will include the out of state college attendance information.

ADHE Executive Staff recommends that the AHECB accept this report.

ANNUAL STATUS REPORT FOR SEXUAL ASSAULT PREVENTION ON CAMPUS (ACT 563 OF 2017)

Under Act 563 of 2017, the Arkansas Higher Education Coordinating Board was directed to develop an action plan to address the prevention of sexual assault on college and university campuses and to submit annual reports on implementation by November 1 to the Arkansas General Assembly via the House and Senate Education Committees and the House and Senate Public Health, Welfare and Labor Committees.

The Division of Higher Education of the Department of Education has collected the annual campus status reports for the 2018-2019 academic year, as required by the legislation. This year we received reports from all but one campus (as of this report date).

The legislative requirements for the action plan direct Arkansas public colleges and universities:

- 1) To incorporate sexual assault prevention into advising and student orientation;
- 2) To integrate information into academic courses as appropriate;
- 3) To identify opportunities to raise awareness and provide resources for sexual assault prevention across the entire student population;
- 4) To identify available grants and partnerships to assist with the work;
- 5) To collaborate with sources for access to care; and
- 6) To identify other topics or issues relating to the prevention and reduction of sexual assault.

As the issue of sexual assault has unfolded before the nation the last couple of years, one response has been a growing number of national campaigns that are aimed at improving awareness and college and university campuses. Several Arkansas colleges and universities utilized the resources from these various campaigns to engage students and improve awareness. The Red Flag Campaign, Walk a Mile in her Shoes Campaign, Bystander Intervention Training (part of several different campaigns), What You Were Wearing, “No More” Campaign, as well as the Clothesline Project were listed by multiple campuses as part of their efforts to prevent sexual assault by educating students about the issue. Campuses also took advantage of the designated month of April as Sexual Assault Prevention month to schedule activities. A small sample of other campus activities follows below. Links to the selected reports and to the national campaigns used in Arkansas will be posted on the ADE-DHE website.

Arkansas State University – ASU’s sexual assault awareness includes ongoing programming for the campus community that includes teal ribbon giveaways, test your knowledge activities, programs on “Textual Harassment” and pledge cards. In addition, assault prevention programs are presented to residence halls and other on-campus resident students including fraternities and sororities each semester.

Arkansas Tech University – 1,618 new undergraduate students completed Sexual Assault Prevention for Undergraduates for the fall 2018 semester and 139 completed the course in spring 2019. In addition, 12 educational programs were offered via On Track program by various campus departments and registered student organizations. A list of some of the programs are as follows: Sexual Assault Awareness Rally, Sexual Assault Awareness Month Table on April 1, 9, 17 and 23, Consent and Healthy Relationships Workshop, Combatting Rape Culture.

University of Arkansas – The University of Arkansas participated in the “Its On Us” Week which is a cultural movement aimed at fundamentally shifting the way we think and talk about sexual assault. In addition, yearly events the University of Arkansas Housing participates in “No Woman Left Behind” which focuses on sexual assault prevention. (This is another national campaign with good resources for campuses.)

Black River Technical College – Black River presented programming in courses and programs which are predominantly female to build confidence and leadership skills. A sexual assault response and prevention team was developed and led by the Dean of Students. High risk areas and times were identified with the aid of campus police. At risk populations were identified.

North Arkansas College - Northark is partnering with the Ozark Rape Crisis Center to provide table top presentations to students on campus as well as additional training presentations on campus. Northark also utilized the Reach Out app. A novel approach connecting with students in need to resources and people ready to help.

UNPLANNED PREGNANCY PREVENTION ANNUAL REPORT

Under Act 943 of 2015, the Arkansas Higher Education Coordinating Board (AHECB) was directed to develop an action plan to address unplanned pregnancies on college campuses and to submit annual reports on implementation by November 1 to the Arkansas General Assembly via the House and Senate Education Committees and the House and Senate Public Health, Welfare and Labor Committees.

The legislation directs higher education institutions in nine areas. Among those directives colleges and universities are: to identify methods of addressing the problem of unplanned pregnancy, to collaborate with health centers, to identify a measure of success, and to incorporate into academic coursework “as appropriate”. *The legislation mandates that campuses include in their orientations information on the prevention of unplanned pregnancy.*

The annual IHE reports have been collected by the Division of Higher Education for 2018-2019. The department is able to report that ten of eleven public four-year universities and all 22 two-year campuses have submitted reports and are in compliance with Act 943. A compliant school has met the requirements of the law, but a number of schools did much more. This report, as well as the reports of select campuses will be shared on the ADHE website. Some highlights from the work being done at our colleges and universities follows:

University Activities

Arkansas Tech – Student leaders and ATU staff were trained on Act 943 to teach material during small group sessions. During small group sessions at the fall 2018 orientation, the material was presented by peer orientation leaders to over 1300 freshmen. Incoming freshmen and transfer students were also presented curriculum during fall and spring orientations.

University of Arkansas– As requested in Item 4 in the legislation, U of A students provided community outreach to teens in Northwest Arkansas through service learning and the Center for Community Engagement as well as federal funded pre-college programs. Concerning identifying method to measure effectiveness of prevention activities, the U of A surveyed students in spring 2019 using the American College Health Association National College Health Assessment survey to collect data on the effects of an unplanned pregnancy on academic performance, as well as pregnancy prevention methods.

University of Arkansas Little Rock– Campus Living partnered with Health Services to put on Trojan Wars, an event focused on safe sex and unplanned pregnancy prevention during Trojan Daze. In addition, Resident Assistants created bulletin boards utilizing

statistics on pregnancy aimed at encouraging students to practice safe sex and discussed pregnancy prevention at hall meetings. Roughly 80-100 mentorships were set-up through the Charles W. Donaldson Scholars Academy serving students in the Pulaski County School District.

University of Central Arkansas – *July and August* – Freshman Orientation students received a tour of the Student Health Clinic and were given a comprehensive overview of the services provided including Women's Health Center and family planning. There were also several events throughout the year – *October*: Get Yourself Tested Campaign – a month long campaign promoting sexual responsibility; *February*: Sexual Health Fair – a group of students volunteered to promote health and well-being through developing wellness activities on campus in which seven booths focused on topics including safe sex practices and contraception; *March*: Safe Spring Break Week – 60 safety kits were handed out that included condoms; and *April*: UCA Wellness Fair hosted by Student Wellness and Development which included several booths covering pregnancy prevention, provided condoms and student discussions about campus and community resources.

College Activities

College of the Ouachitas - Concerning identifying a method to measure effectiveness of unplanned pregnancy prevention activities, COTO developed a Student Learning Outcome Assessment tool beginning fall of 2016. Baseline data was collected. Each semester, all students in SOS and PCS classes were assessed on their learning level of the materials presented regarding Act 943. Trend data as well as individual semester data was collected and analyzed.

North Arkansas College – Northark requires completion of a mandatory online orientation presented each semester for each new or non-consecutive returning student that includes information on pregnancy prevention, family planning and contraception, as well as health of reproductive systems. NorthArk also created brochures and flyers with pregnancy prevention and reproductive health resources. These materials were distributed to students throughout the campuses through brochure and literature racks, table tents and loose flyers placed in student populated areas such as the Advising Center, Student Center and Learning Resource Center. Posters were created with similar information and displayed throughout the campuses. Electronic materials were also created and displayed on the monitors on every campus. Northark's athletes also mentor students and promote healthy living during the school year and through summer sports camps.

Phillips Community College – During mandatory orientation, there was a special session dedicated to pregnancy prevention awareness that included: administering a survey at the beginning asking if the students had thought about the impact that

pregnancy may have on their ability to begin, continue or complete a college degree; a general overview of prevention and unplanned pregnancy statistics among older teens; showing the pregnancy prevention video; and a presentation by members of the Phillips County and Arkansas County health departments describing the services they provide, including information on family planning and birth control. In addition, brochures were included in each student's orientation packet. After the session, students were administered another survey that asked if the information provided had made them think more about the impact of pregnancy on their education. The overwhelming majority reported a "yes" answer.

REVIEW OF AUDIT REPORT BY GOVERNING BODY

According to A.C.A. §10-4-418, the audit report and accompanying comments and recommendations relating to any entity of the state or political subdivision of the state shall be reviewed by the applicable governing body if the entity has such a governing body.

The governing body shall take appropriate action relating to each finding and recommendation contained in the audit report. The minutes of the governing body shall document the review of the findings and recommendations and the action taken by the governing body.

In accordance with A.C.A. §10-4-418, the Director of the Division of Higher Education will report on the 2018 audit findings, comments and recommendations to the Higher Education Coordinating Board at its next regular scheduled meeting.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION

Annual Financial Report

June 30, 2018

LEGISLATIVE JOINT AUDITING COMMITTEE



ARKANSAS DEPARTMENT OF HIGHER EDUCATION
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Arkansas

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Sen. Eddie Cheatham
Senate Vice Chair



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House Chair
Rep. DeAnn Vaught
House Vice Chair

Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

INDEPENDENT AUDITOR'S REPORT

Arkansas Department of Higher Education
Legislative Joint Auditing Committee

Report on the Financial Statements

We have audited the accompanying financial statements of the major fund of the Arkansas Department of Higher Education, a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas Department of Higher Education's departmental financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major fund of Arkansas Department of Higher Education as of June 30, 2018, the changes in financial position thereof, and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As indicated above, the financial statements of the Arkansas Department of Higher Education are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the major fund of the State that is attributable to the transactions of the Arkansas Department of Higher Education. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018, the changes in its financial position, and budgetary comparisons for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Arkansas Department of Higher Education are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Arkansas Department of Higher Education individually. Our opinion on the departmental financial statements is not affected by the omission of this information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Arkansas Department of Higher Education's departmental financial statements. The Schedule of Selected Information and Other General Information are presented for purposes of additional analysis and are not a required part of the departmental financial statements.

The Schedule of Selected Information and Other General Information have not been subjected to the auditing procedures applied in the audit of the departmental financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2019, on our consideration of the Arkansas Department of Higher Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Arkansas Department of Higher Education's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arkansas Department of Higher Education's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

Little Rock, Arkansas
June 26, 2019
SA1870018

Arkansas

Sen. Jason Rapert
Senate Chair
Sen. Eddie Cheatham
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Roger A. Norman, JD, CPA, CFE, CFF
Legislative Auditor

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LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Arkansas Department of Higher Education
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the major fund of the Arkansas Department of Higher Education (the "Agency"), a department of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas Department of Higher Education's departmental financial statements, and have issued our report thereon dated June 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2018-1 and 2018-2 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below in the Schedule of Findings and Responses as items 2018-1 and 2018-2.

SCHEDULE OF FINDINGS AND RESPONSES

2018-1

Agencies are required to record amounts due for student loans in accordance with Ark. Code Ann. § 19-2-304. Additionally, according to Ark. Code Ann. § 19-2-305(a), "A state agency shall diligently and actively pursue the collection of their accounts and notes receivable." In accordance with the Financial Management Guide R4-19-4-2004, "the Chief Fiscal Officer of the State shall verify that all efforts to collect the indebtedness have been fulfilled. He may then, by written approval, declare the debt or remaining debt unable to be collected and notify the State agency and Legislative Joint Auditing Committee of abatement of the debt."

The Arkansas Department of Higher Education (ADHE) oversees several state-funded student loan programs. Students who receive the loans may be eligible to have the loans forgiven if they meet certain criteria; students not meeting the criteria are placed in repayment status. The Agency is required to maintain student loan subsidiary ledgers to track changes to total loan balances throughout the year. These subsidiary ledgers are then used to adjust loans receivables in AASIS during the fiscal year-end closing process.

Review of 40 **active** individual student loan files revealed three instances totaling \$56,697 in which student loan balances did not match the subsidiary ledgers, resulting in an overstated receivables balance.

Review of 25 **inactive** student loan files revealed the following deficiencies in loans receivable:

- Four instances totaling \$10,932 in which student loan balances did not match the subsidiary ledgers, resulting in an overstated receivables balance.
- Three instances totaling \$12,000 in which student loan balances were written off without proper approval from the Chief Fiscal Officer of the State.

We recommend the Agency continue to review the subsidiary ledgers to ensure receivables are properly reported and actively pursued for collection. In addition, we recommend the Agency receive the proper approval of the Chief Fiscal Officer of the State before abatement of student loan balances.

Management response: *The Department agrees with the finding. ADHE has dedicated a staff member full time as well as additional staff to correct the deficiency in the student loan programs. Once account ledgers have been reconciled, staff will ensure that AASIS and the subsidiary ledgers are balanced on a monthly basis and that the subsidiary ledgers are also balanced monthly with our servicing agent, Campus Partners. After the last audit, staff had corrected the balancing between Agency ledgers and AASIS; however, the balancing between AASIS and our servicing agent was still lacking. That has been addressed and corrected moving forward. ADHE staff will also be auditing files for all student loan files with a remaining balance to verify all necessary documentation has been included in the file and that the proper loan status has been assigned.*

2018-2

The Chief Fiscal Officer of the State, under the authority of Ark. Code Ann. § 19-4-901-907 and related sections, issues rules concerning state-owned vehicles and publishes the State of Arkansas Vehicle Use and Management Handbook. Each use of any vehicle must be recorded as follows:

1. Day and time of use.
2. Starting location and destination.
3. Beginning and ending odometer mileage.
4. Cost and amount of fuel purchased, if any.
5. Any problems encountered with the vehicle.

This information must be maintained in the vehicle use log, a written record carried in every vehicle at all times. The Handbook also requires employees to reimburse the cost of their personal use of state vehicles.

The ADHE Director obtained commuter status in February 2018 and commuted in a state vehicle from May 2018 through May 2019; however, no vehicle use log was maintained. As a result, we could not determine an accurate amount of reimbursements for personal use of the vehicle.

We recommend the Agency comply with Arkansas Code and the rules issued by the Chief Fiscal Officer of the State contained in the State of Arkansas Vehicle Use and Management Handbook. The Agency should coordinate with the Department of Finance and Administration (DFA) to determine the appropriate amount of reimbursement for personal use of the state vehicle.

Management response: *The Department agrees with the finding. ADHE has taken steps to correct these issues by implementing a daily log for the Director to maintain in her commuter vehicle. The Director is also being invoiced monthly for the personal use of the vehicle in accordance with the State Vehicle Use and Management Handbook.*

Agency's Response to Findings

The Agency's response to the finding identified in our audit is described above. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink, appearing to read "Tom Bullington", with a stylized flourish at the end.

Tom Bullington, CPA
Deputy Legislative Auditor

Little Rock, Arkansas
June 26, 2019

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2018

Exhibit A

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 33,472,523
Investments	49,409
Due from other state agencies	71,746,497
Accrued income	444
Loans receivable, net:	
Emergency Secondary Education Loans	4,085
Paul Douglas Congressional Teachers Scholarship Loans	83,603
Minority Teachers Scholarship Program Loans	41,970
Minority Masters Fellows Program Loans	45,857
State Teacher Assistance Resource Program Loans	907,821
Teacher Opportunity Program Loans	9,054
Dental Program Loans	6,251,326
Optometry Program Loans	687,106
Other receivables	3,472
Prepaid items	<u>52,673</u>
 TOTAL ASSETS	 <u>\$ 113,355,840</u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 258,266
Accrued payroll	111,032
Due to other governments	502
Due to other state agencies	13,071,072
Unearned revenues	<u>125,630</u>
Total Liabilities	<u>13,566,502</u>
 Deferred inflows of resources:	
Related to revenues	<u>3,422</u>
 Fund balance:	
Nonspendable for:	
Loans	8,030,822
Prepaid items	52,673
Restricted for:	
Debt service	49,409
Lottery	70,351,922
Program requirements	297,880
Other	103,383
Committed for:	
Program requirements	18,456,685
Other	123,818
Assigned for other	245,474
Unassigned	<u>2,073,850</u>
Total Fund Balance	<u>99,785,916</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 <u>\$ 113,355,840</u>

The accompanying notes are an integral part of these financial statements.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

	<u>General Fund</u>
REVENUES	
Federal grants and reimbursements	\$ 416,704
Grants and reimbursements	479,916
Interest income	124,297
Fee income	289,467
Miscellaneous income	<u>23,687</u>
TOTAL REVENUES	<u>1,334,071</u>
EXPENDITURES	
Personal services - payroll	2,308,202
Employee benefits - matching	749,241
Communication and transportation of commodities	239,006
Printing and advertising	19,219
Repairing and servicing	49,029
Utilities and rent	557,289
Travel and subsistence	95,923
Professional services	178,337
Insurance and bonds	4,903
Other expenses and services	881,938
Commodities, materials, and supplies	163,354
Assistance, grants, and aids	124,235,228
Refunds, taxes, and claims	30,126
Low value asset purchases	8,937
Capital outlay	<u>44,080</u>
TOTAL EXPENDITURES	<u>129,564,812</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(128,230,741)</u>

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE --
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

	<u>General Fund</u>
OTHER FINANCING SOURCES (USES)	
Interagency transfers in:	
General revenue distribution	\$ 51,416,648
Arkansas Lottery Commission	91,844,929
Federal grants and reimbursements from other state agencies	7,315,910
Educational Excellence Trust Fund	14,505,811
General improvement funding	8,705,959
Interagency transfers out:	
Assistance, grants, and aids to other state entities	(23,102,730)
Excess general revenue subsequently transferred to the General Revenue Allotment Reserve Fund (GAD)	(267,555)
Other, net	(252,958)
Insurance proceeds	65,393
Prior-year refunds to expenditures	174,661
Prior-year warrants outlawed and cancelled	<u>1,887</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>150,407,955</u>
NET CHANGE IN FUND BALANCE	22,177,214
FUND BALANCE - JULY 1	<u>77,608,702</u>
FUND BALANCE - JUNE 30	<u><u>\$ 99,785,916</u></u>

The accompanying notes are an integral part of these financial statements.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
REVENUES				
Federal grants and reimbursements	\$ 1,206,000	\$ 1,206,000	\$ 416,704	\$ (789,296)
Grants and reimbursements	480,200	480,200	479,916	(284)
Interest income			124,297	124,297
Rents, royalties, and leases	500,000	500,000		(500,000)
Fee income	452,584	452,584	289,467	(163,117)
Miscellaneous			23,687	23,687
TOTAL REVENUES	2,638,784	2,638,784	1,334,071	(1,304,713)
EXPENDITURES				
Regular salaries	3,003,994	2,926,236	2,308,202	618,034
Extra help	33,000	3,000		3,000
Operating expenses	2,183,698	11,245,245	717,920	10,527,325
Personal services matching	922,369	906,737	749,241	157,496
Grants and aids	41,452,851	85,197,780	30,934,763	54,263,017
Lottery scholarships			91,839,942	(91,839,942)
Conference fees and travel	134,098	90,700	54,020	36,680
Professional fees and services	526,784	470,534	172,415	298,119
Capital outlay	70,000	154,398	44,080	110,318
Refunds and reimbursements	350,000	450,000	4,750	445,250
Marketing and redistribution proceeds		4		4
Loans	1,377,370	1,377,370	1,019,500	357,870
Scholarships	1,325,000	2,269,857	1,719,979	549,878
Academic Challenge scholarship program	33,500,000	40,320,284		40,320,284
91st Regular Session Projects	19,000,000	10,544,041		10,544,041
Governor's Scholars program	15,200,000	14,192,418		14,192,418
Outcome Centered Awards	54,512,702			
Student undergraduate research fellowship	150,000			
Web-based applications	1,000,000			
TOTAL EXPENDITURES	174,741,866	170,148,604	129,564,812	40,583,792
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(172,103,082)	(167,509,820)	(128,230,741)	39,279,079

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit C

	General Fund			Variance With Final Budget Positive (Negative)
	Budgeted Amount		Actual	
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Interagency transfers in:				
General revenue distribution	\$ 53,962,880	\$ 53,962,880	\$ 51,416,648	\$ (2,546,232)
Arkansas Lottery Commission	798,228	798,228	91,844,929	91,046,701
Federal grants and reimbursements from other state agencies	7,536,951	7,536,951	7,315,910	(221,041)
Educational Excellence Trust Fund	14,291,518	14,291,518	14,505,811	214,293
General improvement funding			8,705,959	8,705,959
Outcome Center Awards Funding	54,512,702	54,512,702		(54,512,702)
Interagency transfers out:				
Assistance, grants, and aids to other state entities			(23,102,730)	(23,102,730)
Excess general revenue subsequently transferred to the General Revenue Allotment Reserve Fund (GAD)			(267,555)	(267,555)
Other			(252,958)	(252,958)
Insurance proceeds			65,393	65,393
Prior-year refunds to expenditures			174,661	174,661
Prior-year warrants outlawed and cancelled			1,887	1,887
TOTAL OTHER FINANCING SOURCES (USES)	131,102,279	131,102,279	150,407,955	19,305,676
NET CHANGE IN FUND BALANCE	(41,000,803)	(36,407,541)	22,177,214	58,584,755
FUND BALANCE - JULY 1	77,608,702	77,608,702	77,608,702	
FUND BALANCE - JUNE 30	\$ 36,607,899	\$ 41,201,161	\$ 99,785,916	\$ 58,584,755

The accompanying notes are an integral part of these financial statements.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 38 of 1971, as amended, established the Arkansas Department of Higher Education, as a department of Arkansas state government, to provide greater coordination of financing the higher education program of the State, certifying new educational programs and new institutions of higher learning, and administering certain student financial aid programs.

Act 1114 of 1998 created the Arkansas Higher Education Coordinating Board and transferred to it all the powers, duties, and functions of the State Board of Higher Education, effective May 1, 1998. The Arkansas Higher Education Coordinating Board consists of 12 members appointed by the Governor. Board members serve without compensation but may receive reimbursement for performing official duties at the rate established for state employees by state travel regulations in accordance with Ark. Code Ann. §§ 25-16-901, 25-16-908.

Act 565 of 2017 transferred the State Board of Private Career Education to the Department of Higher Education, effective March 22, 2017. The State Board of Private Career Education consists of 7 members appointed by the Governor.

B. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A *fund* is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds, if applicable to this Agency, are recognized in the accompanying financial statements.

Governmental Funds

General Fund – General Fund is the general operating fund and is used to report all financial resources, except those required to be accounted for in another fund.

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. Financial statements for governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to pay current liabilities (i.e., 45 days). Expenditures are generally recognized under the modified accrual basis when the related fund liability is incurred. Revenues from federal grants and federal reimbursements are recognized when all applicable eligibility requirements and the availability criteria of 45 days have been met.

D. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in State Treasury, all certificates of deposit with maturities at purchase of 90 days or less, and all short-term instruments with maturities at purchase of 90 days or less. All short-term investments are stated at fair value.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments

State Board of Finance Policies

Ark. Code Ann. § 19-4-805 requires that agencies holding monies not deposited in the State Treasury, other than the institutions of higher learning, abide by the recommendations of the State Board of Finance. The State Board of Finance promulgated cash management, collateralization, and investments policies and procedures, effective July 14, 2012, as referenced in the Financial Management Guide issued by the Department of Finance and Administration for use by all state agencies.

The stated goal of state cash management is the protection of principal, while maximizing investment income and minimizing non-interest earning balances. Deposits are to be made within the borders of the State of Arkansas and must qualify for Federal Deposit Insurance Corporation (FDIC) deposit insurance coverage. Policy requires a minimum of four bids to be sought on interest-bearing deposits in order to obtain the highest rate possible.

Policy states that funds are to be in transactional and non-transactional accounts as defined in the Financial Management Guide. Funds in excess of immediate expenditure requirements (excluding minimum balances) should not remain in non-interest bearing accounts.

State Board of Finance policy states that cash funds may only be invested in accounts and investments authorized under Ark. Code Ann. §§ 19-3-510, -518. All noncash investments must be held in safekeeping by a bank or financial institution. In addition, all cash funds on deposit with a bank or financial institution that exceed FDIC deposit insurance coverage must be collateralized. Collateral pledged must be held by an unaffiliated third-party custodian in an amount at least equal to 105% of the cash funds on deposit.

Deposits

Deposits are carried at cost and consist of cash in bank and cash in State Treasury totaling \$11,969,359 and \$21,476,397, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2018, none of the Agency's bank balance of \$11,969,359 was exposed to custodial credit risk.

Investments

Except for certain interest-earning investment contracts and money market investments, investments are reported at fair value.

Nonparticipating contracts (certificates of deposit) and participating interest-earning investment contracts that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Changes in the fair value of investments are recognized as revenue in the operating statements.

For purposes of the statement of cash flows, all highly liquid investments with maturity of three months or less when purchased are considered to be cash equivalents.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

Investments (Continued)

As of June 30, 2018, the Agency had the following investment balances and segmented maturities:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less than 1	1-5	6-10	More than 10
Federated Treasury Obligations					
money market mutual funds	\$ 49,409	\$ 49,409	\$ 0	\$ 0	\$ 0

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary shown above indicates that none of the Agency's investment maturities are one year or longer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency has adopted the State Board of Finance Policy that limits investment choices to certificates of deposit, repurchase agreements, treasury bills, treasury notes, and securities issued by the State of Arkansas and its political subdivisions. The Agency's exposure to credit risk as of June 30, 2018, is as follows:

Rating	Fair Value
AAA	\$ 49,409

F. Interfund Balances and Transfers

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Details of interfund transfers are disclosed in the financial statements.

G. Prepaid Expenses

Prepaid expenses generally represent the cost of consumable supplies on hand or unexpired services at year-end. The cost of these items is included with expenditures at the time of purchase. Prepaid expenses, as reported in the general fund financial statements, are also recorded as a nonspendable component of fund balance indicating that they do not constitute "available, spendable financial resources."

H. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources represent a decrease of net position that applies to future periods. Thus, these items will not be recognized as an outflow of resources (an expense or expenditure) until a future period.

Deferred inflows of resources represent an increase of net position that applies to future periods. These items will not be recognized as an inflow of resources (revenue) until a future period.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Fund Equity

Fund Balance

In the financial statements, fund balance is reported in one of five classifications, where applicable, based on the constraints imposed on the use of the resources.

The nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form (e.g., prepaid items, inventories, long-term amount of loans and notes receivables, etc.) or (b) legally or contractually required to be maintained intact.

The spendable portion of fund balance, where applicable, comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes according to constraints imposed by legislation of the General Assembly, the government's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the General Assembly removes or changes the constraint by the same action that imposed the constraint.

Assigned fund balance. This classification reflects amounts constrained by the State's "intent" to be used for specific purposes but are neither restricted nor committed. The General Assembly has the authority to assign amounts to be used for specific purposes by legislation or approved methods of financing.

Unassigned fund balance. This amount is the residual classification for the general fund.

When more than one spendable classification is available for use, it is the State's policy to use the resources in this order: restricted, committed, assigned, and unassigned.

J. Budgetary Data

The State utilizes an annual budgeting process with budget amounts initially derived from the previous fiscal year's funded allocation. In accordance with the appropriations and funding provided by the Legislature, individual state agencies have been charged with the responsibility of administering and managing their programs as authorized by the Legislature. Agencies are also charged with the responsibility of preparing an annual operations plan as a part of the budgetary process for the operation of each of their assigned programs. State law provides for the establishment of a comprehensive financial management system that includes adequate controls over receipts, expenditures, and balances of Agency funds. It is mandated that this system include a modified accrual system, conform with generally accepted governmental accounting principles, and provide a reporting system whereby actual expenditures are compared to expenditures projected in the Agency's annual operation plan.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
SCHEDULE OF SELECTED INFORMATION
FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2018
(UNAUDITED)

Schedule 1

	For the Year Ended June 30,				
	2018	2017	2016	2015	2014
General Fund					
Total Assets	\$113,355,840	\$ 80,557,862	\$ 59,793,124	\$ 54,450,061	\$ 55,298,325
Total Liabilities	13,566,502	2,939,290	1,980,136	2,042,397	1,187,171
Total Deferred Inflows of Resources	3,422	9,870	586,779	513,587	181
Total Fund Equity	99,785,916	77,608,702	57,226,209	51,894,077	54,110,973
Net Revenues	1,334,071	2,258,909	2,457,163	2,743,557	6,003,715
Total Expenditures	129,564,812	128,513,798	136,833,449	137,598,893	151,016,900
Total Other Financing Sources (Uses)	150,407,955	146,637,382	139,708,418	132,638,440	137,176,683

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

A. Capital Assets

Capital assets purchased and in the custody of this Agency were recorded as expenditures at the time of purchase. Assets with costs exceeding \$5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Infrastructure or public domain fixed assets (such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems) are also capitalized. Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. In accordance with current accounting principles generally accepted in the United States of America, general capital assets and depreciation are reported in the State's "government-wide" financial statements but are not reported in the governmental fund financial statements. Depreciation is reported for proprietary fund capital assets based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

<u>Assets:</u>	<u>Years</u>
Equipment	5-20
Buildings and building improvements	20-50
Infrastructure	10-40
Land improvements	10-100
Intangibles	4-95
Other capital assets	10-15

Capital assets activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions / Transfers</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Equipment	\$ 326,176	\$ 44,080		\$ 370,256
Leasehold improvements	316,785			316,785
Intangibles	3,385			3,385
Total governmental activities	<u>\$ 646,346</u>	<u>\$ 44,080</u>	<u>\$ 0</u>	<u>\$ 690,426</u>

B. Pension Plan

Arkansas Public Employees Retirement System (APERS)

Plan Description – The Agency contributes to APERS, a cost-sharing, multiple-employer defined benefit pension plan administered by the APERS Board of Trustees. APERS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the General Assembly the legislative power to enact and amend benefit provisions of APERS as published in Chapters 2, 3, and 4 of Title 24 of the Arkansas Code Annotated. APERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Public Employees Retirement System, One Union National Plaza, 124 West Capitol, Little Rock, Arkansas 72201 or by calling 1-501-682-7855.

Funding Policy – Contributory plan members are required to contribute 5% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 14.75% of annual covered payroll. The contribution requirements of plan members are established and may be amended by the Arkansas General Assembly. The contribution requirements of the Agency are established and may be amended by the APERS Board of Trustees. The Agency's contributions to APERS for the years ended June 30, 2018, 2017, and 2016, were \$221,713, \$225,067, and \$230,322, respectively, equal to the required contributions for each year.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

B. Pension Plan (Continued)

Arkansas Teacher Retirement System

Plan Description – The Agency contributes to the Arkansas Teacher Retirement System (ATRS), a cost-sharing, multiple-employer defined benefit pension plan administered by the ATRS Board of Trustees. ATRS provides retirement and disability benefits, annual redetermination of benefit adjustments, and survivor benefits to plan members and beneficiaries. The Constitution of Arkansas, Article 5, vests with the Arkansas General Assembly the legislative power to enact and amend benefit provisions of ATRS as published in Chapter 7 of Title 24 of Arkansas Code Annotated. ATRS issues a publicly-available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Arkansas Teacher Retirement System, 1400 West Third Street, Little Rock, Arkansas 72201 or by calling 1-800-682-1517.

Funding Policy – Contributory plan members are required to contribute 6% of their annual covered salary. The Agency is required to contribute for all covered state employees at the rate of 14% of annual covered payroll. The contribution requirements of plan members and the Agency are established and may be amended by the Arkansas General Assembly. The Agency's contributions to ATRS for the years ended June 30, 2018, 2017, and 2016, were \$70,146, \$73,699, and \$46,312, respectively, equal to the required contributions for each year.

Teachers Insurance and Annuity Association/College Retirement Equities Fund

Plan Description – The Agency participates in the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), a defined contribution plan. The plan is a 403(b) program as defined by the Internal Revenue Service Code of 1986 as amended, and is administered by TIAA/CREF. TIAA is an insurance company offering participants a traditional annuity with guaranteed principal and a specific interest rate plus the opportunity for additional growth through dividends. CREF is an investment company that offers a variable annuity. Arkansas Code Annotated authorizes participation in the plan.

Funding Policy – TIAA/CREF has contributory and non-contributory plans. Contributory members are required to contribute at least 6% of earnings to the plan. The Agency contributes 10% of earnings for members. The Agency's contributions for the years ended June 30, 2018, 2017, 2016, were \$29,866, \$28,330, and \$51,797, respectively, equal to the required contributions for each year.

C. Postemployment Benefits Other Than Pensions (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Finance and Administration – Employee Benefits Division (DFA-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DFA-EBD related to medical and prescription drug plans are established by the State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the Board and DFA-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DFA-EBD is included in the State of Arkansas's Comprehensive Annual Financial Report (CAFR), which includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Finance and Administration, 1509 West Seventh Street, Suite 403, Little Rock, Arkansas 72201 or by calling 501-682-1675.

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by DFA-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of covered individuals: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust, as defined by Governmental Accounting Standards Board (GASB) Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined calculated amount made in accordance with GASB Statement No. 75.

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

C. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Arkansas State Employee Health Insurance Plan (Plan) (Continued)

Funding Policy – Employer contributions to the Plan are established by Ark. Code Ann. § 21-5-414 and may not exceed \$450 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Benefits for Medicare-eligible retirees are coordinated with Medicare Parts A and B, and the Plan is the secondary payer.

D. Compensated Absences – Employee Leave

Annual leave is earned by all full-time employees. Upon termination, employees are entitled to receive compensation for their unused accrued annual leave up to 30 days. Liabilities for compensated absences are determined at the end of the year based on current salary rates.

Sick leave is earned by all full-time employees and may be accrued up to 120 days. Compensation up to a maximum of \$7,500 for unused sick leave is payable to employees upon retirement.

Compensated absences are reported in the State's "government-wide" financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency's employee annual and sick leave as of June 30, 2018 and 2017, amounted to \$233,554 and \$203,817, respectively. The net changes to compensated absences payable during the year ended June 30, 2018, amounted to \$29,737.

E. General Obligation Bonds Long-Term Debt

The Constitution of the State does not limit the amount of general obligation bonds that the State may issue; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose. Principal, interest, and paying agent fees are recorded as debt service expenditures when due. When a bond is issued, the face amount of the debt is recorded as an other financing source, and the bond premium, discount, and/or issuance cost is recognized. Premiums and discounts are recorded as other financing sources and uses, respectively. Issuance costs are recorded as debt service expenditures.

In accordance with current accounting principles generally accepted in the United States of America, the liability; deferred premiums, discounts, and/or issuance costs; and amortization of deferred premiums, discounts, and/or issuance costs are reported in the State of Arkansas' Comprehensive Annual Financial Report, the State's "government-wide" financial statements but are not reported in the governmental fund financial statements.

General obligation bonds outstanding at June 30, 2018, were as follows:

	Final Maturity Date June 1,	Interest Rates %	Balance
Higher Education Bonds:			
2015 Series, G.O. Bonds	2029	4.00 - 4.25	\$ 125,880,000
2016 Series, G.O. Bonds	2022	2.00 - 4.25	65,210,000
			<u>\$ 191,090,000</u>

ARKANSAS DEPARTMENT OF HIGHER EDUCATION
OTHER GENERAL INFORMATION
JUNE 30, 2018
(UNAUDITED)

E. General Obligation Bonds Long-Term Debt (Continued)

Future amounts required to pay principal and interest on general obligation bonds at June 30, 2018, were as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 16,370,000	\$ 6,820,638	\$ 23,190,638
2020	16,700,000	6,493,238	23,193,238
2021	17,200,000	5,992,238	23,192,238
2022	14,940,000	5,497,737	20,437,737
2023	13,205,000	5,068,212	18,273,212
2024 - 28	101,820,000	14,708,400	116,528,400
29	10,855,000	434,200	11,289,200
	<u>\$ 191,090,000</u>	<u>\$ 45,014,663</u>	<u>\$ 236,104,663</u>

Details of general obligation bonds outstanding are as follows:

Higher Education General Obligation Bond – Act 1282 of 2005 authorized the State to issue Higher Education General Obligation Bonds. All bonds issued under the authority of this Act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to approximately \$250 million. However, the total outstanding principal amount of Higher Education General Obligation Bonds issued under Act 1282 of 2005 and the College Savings Bond Act of 1989 shall not have scheduled debt service payments on a combined basis in excess of \$24 million in any one fiscal year. The Higher Education General Obligation Bonds were issued to provide funds to finance technology and facility improvements for state institutions of higher education and to refund certain outstanding bonds. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds. No bonds were issued under this Act in the 2018 fiscal year.